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ORIGIN EB-07

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FRB-03 OMB-01 AID-05 CEA-01 SIL-01 SAM-01 USIA-06

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EUR:RPE:RBRESLER

STR:MBSMITH

COMMERCE:AGAREL

LABOR:IKRAMER

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TO USMISSION EC BRUSSELS

INFO AMEMBASSY ROME

AMEMBASSY PARIS

USMISSION GENEVA

C O N F I D E N T I A L STATE 239348

E.O. 11652: GDS

TAGS: ETRD, EEC, FR, IT

SUBJECT: US - EC TEXTILE CONSULTATIONS

GENEVA FOR PHELAN

1. SUMMARY - US - EC TEXTILE CONSULTATIONS, HELD IN WASHINGTON ON SEPTEMBER 9 AND 11, CONCENTRATED PRIMARILY ON APPARENT EC (FRENCH) EXPORTS OF MEN'S AND BOYS' WOOL SUITS (CATEGORY 120) TO THE U.S. AND EC COMPLAINT ABOUT U.S. SHIPMENTS OF DENIM TO ITALY. EC OFFICIALS AGREED TO PROVIDE EXPORT FIGURES TO FACILITATE U.S. INVESTIGATION OF
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ORIGIN OF SUITS. WITH RESPECT TO DENIM COMPLAINT, U.S.

AGAIN REJECTED REQUEST FOR "ADMINISTRATIVE COOPERATION" INCLUDING NUMERICAL LIMIT ON U.S. EXPORTS OF DENIM CLOTH TO ITALY, BUT AGREED TO CONSIDER COOPERATION WITH EC IN EFFORT TO ANALYZE AND ELIMINATE DISCREPANCIES BETWEEN U.S. AND ITALIAN STATISTICS, INCLUDING THE POSSIBILITY OF UNDER-INVOICING (UNDER-VALUATION) BY ITALIAN IMPORTERS.

2. U.S. - EC BILATERAL TEXTILE CONSULTATIONS WERE HELD IN WASHINGTON ON SEPTEMBER 9 AND 11, 1976. EC WAS REPRESENTED BY BENEDICK MEYNELL (DIRECTOR OF DIRECTORATE-GENERAL FOR EXTERNAL RELATIONS, HEAD OF DELEGATION), ALASTAIR SUTTON (DIRECTORATE-GENERAL FOR EXTERNAL RELATIONS) JEAN-PIERRE LENG (COMMERCIAL COUNSELOR, EEC WASHINGTON DELEGATION), GERARD DEPAYRE (EEC WASHINGTON DELEGATION) AND MRS. ANNA SNOW (EEC WASHINGTON DELEGATION). U.S. DELEGATION WAS HEADED BY MICHAEL B. SMITH (STR) AND INCLUDED ROBERT SHEPHERD (DEPUTY ASSISTANT SECRETARY FOR RESOURCE AND TRADE ASSISTANCE, DEPARTMENT OF COMMERCE), ARTHUR GAREL (DEPARTMENT OF COMMERCE), RONALD LEVIN (DEPARTMENT OF COMMERCE), IRVING KRAMER (LABOR), CHARLES ANGEVINE (STATE) AND WILLIAM BREW (STATE).

3. SMITH OPENED DISCUSSIONS BY NOTING THAT U.S. WAS RECEIVING LARGE NUMBERS OF MEN'S AND BOYS' WOOL SUITS (CATEGORY 120) FROM THE EC, PARTICULARLY FROM FRANCE; IMPORTS FROM THE EC IN THIS CATEGORY HAD GROWN FROM --30 THOUSAND UNITS IN 1971 TO OVER 300 THOUSAND DURING THE YEAR ENDING JULY 1976. IN ADDITION, AVERAGE COST OF THESE SUITS (TO IMPORTERS) WAS RUNNING ABOUT 60 DOLLARS PER UNIT C.I.F., WHEREAS HONG KONG COST FOR SIMILAR SUIT WAS 75 DOLLARS F.O.B. HONG KONG. MEN'S AND BOYS' PORTION OF U.S. APPAREL INDUSTRY WAS SERIOUSLY AFFECTED BY IMPORTS; U.S. HAD RECENTLY REQUESTED CONSULTATIONS WITH ONE EXPORTING COUNTRY (ROMANIA), HAD TOLD ANOTHER (POLAND) THAT ITS EXPORT GROWTH WAS BEING WATCHED, AND INTENDED TO REJECT AN ANTICIPATED REQUEST FOR A QUOTA INCREASE IN THIS CATEGORY FROM ANOTHER MAJOR EXPORTER. THERE WAS DISCREPANCY BETWEEN U.S. IMPORT AND EC EXPORT FIGURES; U.S. NEEDED MORE DETAILED FIGURES FROM EC TO BE ABLE TO DETERMINE REASON FOR STATISTICAL DISCREPANCY AND SOURCE

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OF SUITS. MEYNELL AGREED TO FURNISH DETAILED STATISTICS WHEN U.S. INDICATED WHICH BTN CATEGORIES IT WAS INTERESTED IN.

4. MEYNELL REVIEWED HISTORY OF NEGOTIATIONS OVER ITALIAN DENIM COMPLAINTS AND REPORTED THAT EC VIEWED PRESENT TALKS AS CONTINUATION OF EARLIER DISCUSSIONS. ITALIANS HOPED TO ACHIEVE A QUANTITATIVE UNDERSTANDING FORMALLY

SETTING AN EXPORT LEVEL AT WHICH U.S. WOULD TAKE SOME ACTION. AN ALTERNATIVE MECHANISM WOULD BE FOR EC TO NOTE CONCERN OVER U.S. DENIM EXPORTS AND INDICATE DESIRE FOR CONSULTATIONS IF EXPORTS SHOULD REACH A SPECIFIED LEVEL. THE EC ALSO WISHED TO SUGGEST ADMINISTRATIVE COOPERATION TO ELIMINATE INVOICING DISCREPANCIES AND TO ESTABLISH MECHANISM FOR MONITORING AND CONTROLLING TRADE IN DENIM. EC FELT THAT BEST APPROACH TO SOLVING THE PROBLEM CAUSED BY ITALIAN COMPLAINT WAS FOR U.S. NOT TO CHALLENGE EC METHOD OF ADHERING TO MFA AND TO COOPERATE IN ADMINISTRATIVE EFFORT TO HAVE COMPLAINT "REMOVED FROM THE AGENDA".

5. SMITH RESPONDED THAT U.S. HAS PREVIOUSLY MADE KNOWN ITS AVERSION TO THE WHOLE PROCESS INITIATED BY THE EC AND ITALY, THAT U.S. WAS NOT INTERESTED IN ANY FORM OF QUANTITATIVE RESTRAINT, AND THAT U.S. INFORMAL INVESTIGATION OF PRICES AND QUANTITIES HAD TURNED UP NO EVIDENCE CORROBORATING ITALIAN CHARGES. EVEN TALKING ABOUT QUANTITATIVE RESTRAINT WAS A PROBLEM FOR U.S. AND WAS AND IS REJECTED BY U.S. ANGEVINE REPORTED THAT IN THOSE CASES WHERE IT HAD BEEN POSSIBLE TO CHECK LOW PRICES ALLEGED BY ITALIANS, U.S. EXPORTERS' PRICES WERE AT OR ABOVE DOMESTIC MARKET PRICES AND DISCREPANCIES APPEARED TO BE RESULT OF UNDER-VALUATION BY ITALIAN IMPORTERS.

6. AFTER EXTENSIVE DISCUSSION OF POSSIBLE TECHNIQUES AND REASONS FOR (AND AGAINST) FALSE PRICE DECLARATIONS, MEYNELL STATED THAT THE COMMISSION'S POSITION, COMPLICATED BY CERTAIN STATEMENTS IN ITS FILES WHICH CANNOT BE MADE TO DISAPPEAR (BUT MIGHT BE IGNORED), WAS TO CREATE A SITUATION WHICH WOULD ALLOW ROME TO CLOSE THE CASE. THIS WOULD BE ACCOMPLISHED BY THE COMMISSION BEING ABLE TO ADVISE THE GOI THAT, AS A RESULT OF CONSULTATIONS, EC EXPECTED U.S. ADMIN-
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ISTRATIVE COOPERATION ON CERTAIN MATTERS, SUCH AS INVESTIGATION OF PRICE QUESTIONS.

SMITH RESPONDED THAT US WOULD HAVE NO OBJECTION TO EC INFORMALLY LETTING IT BE KNOWN TO IMPORTERS THAT US AND EC WERE "WORKING TOGETHER", BUT NOT SPECIFYING EXTENT OF COOPERATION. US WISHED TO KNOW WHAT GUARANTEES EC COULD GIVE THAT FURTHER COOPERATION WOULD END THE MATTER. AFTER MEYNELL SAID NO GUARANTEE COULD BE GIVEN BUT THAT COMMISSION AT HIGH LEVEL WOULD SEEK TO QUIET ITALIANS, US DEL AGREED TO CONSIDER EC REQUEST FOR COOPERATION IN ANALYZING STATISTICAL DISCREPANCIES. US DEL POINTED OUT THAT THE PROBLEM INVOLVED LEGALITY OF COOPERATION; EC SHOULD BE AWARE THAT LEGAL PROHIBITIONS INVOLVING, INTER ALIA, CONFIDENTIALITY OF EXPORT DECLARATIONS COULD WELL LIMIT

POSSIBLE DEGREE OF ASSISTANCE U.S. COULD GIVE.

7. COMMENT - US DEL CHARACTERIZED DISCUSSIONS AS GENERALLY FORTHRIGHT, WITH COOPERATIVE SPIRIT. WITH RESPECT TO DENIM, EC PRESENTATION (ALTHOUGH SUBSTANTIVELY UNACCEPTABLE) WAS NOT COMBATIVE OR STRIDENT, AS EARLIER DISCUSSIONS HAD BEEN. BASIC PROBLEM CONTINUES TO BE THAT THE EC COMMISSION (AND ITS STAFF) IS POLITICALLY UNWILLING TO DROP A MERITLESS CLAIM IN THE FACE OF ITALIAN INTRANSIGENCE. FYI: US HAS SOME SYMPATHY FOR PREDICAMENT INTO WHICH EEC HAS MANAGED TO GET ITSELF, BUT OUR WILLINGNESS TO CONTRIVE MEASURES TO EASE SITUATION WILL BE SEVERELY LIMITED SO LONG AS EEC IS UNABLE TO PROVIDE ASSURANCES THAT IT WILL NOT RENEW ITS PURSUIT OF QUANTITATIVE RESTRAINTS. END FYI U.S. ALSO UNDERSTANDS THAT EUROPEAN TEXTILE INDUSTRY (INCLUDING ITALIANS) HAS NO RPT NO INTEREST IN THIS CASE. FROM THIS, IT APPEARS THE EC COMMISSION IS OUT ON A POLITICAL LIMB FROM WHICH IT HAS GREAT DIFFICULTY PULLING BACK. KISSINGER

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